

<p>DISTRICT COURT, CITY AND COUNTY OF DENVER, COLORADO</p> <p>1437 Bannock Street Denver, CO 80202</p> <hr/> <p>GERALD ROME, Acting Securities Commissioner for the State of Colorado,</p> <p>Plaintiff,</p> <p>v.</p> <p>CHADBOURN PARTNERS, LLC, a/k/a CHADBOURN PARTNERS, INC.; DANIEL R. MURPHY; and HENRY DYER WIGGINS, JR.,</p> <p>Defendants.</p>	<div style="text-align: center;"> <input type="checkbox"/> COURT USE ONLY <input type="checkbox"/> </div>
<p>JOHN W. SUTHERS, Attorney General RUSSELL B. KLEIN, 31965* First Assistant Attorney General CHARLES J. KOOYMAN, 43595* Assistant Attorney General Ralph L. Carr Judicial Building 1300 Broadway, 8th Floor Denver, CO 80203 Klein Tel: (720) 508-6413 Kooyman Tel: (720) 508-6440 Fax: (720) 508-6037 Russell.Klein@state.co.us Charles.Kooyman@state.co.us *Counsel of Record</p>	<p>Case No.:</p> <p>Courtroom:</p>
<p>COMPLAINT FOR INJUNCTIVE AND OTHER RELIEF</p>	

Plaintiff, Gerald Rome, as Acting Securities Commissioner for the State of Colorado, by and through his counsel, the Colorado Attorney General, submits his Complaint against the Defendants and alleges as follows:

JURISDICTION

1. Plaintiff Gerald Rome is the Securities Commissioner for the State of Colorado (the “Commissioner”), and is authorized pursuant to § 11-51-703, C.R.S., to administer all provisions of the Colorado Securities Act (the “Act”). Pursuant to

§ 11-51-602, C.R.S., the Commissioner is authorized to bring this action against the Defendants and to seek temporary, preliminary, and permanent injunctive relief and other equitable relief upon sufficient evidence that the Defendants have engaged in or are about to engage in any act or practice constituting a violation of any provision of the Act.

2. Pursuant to § 11-51-602(1), C.R.S., venue is proper in the district court for the City and County of Denver, Colorado.

SUMMARY OF ALLEGATIONS

3. Without providing even minimal disclosure, Chadbourn Partners, LLC, through Daniel Murphy and Dyer Wiggins, fraudulently raised over \$800,000 from mostly unsophisticated and elderly Colorado investors by selling investments in its unregistered debentures. Beginning in September 2010, Murphy and Wiggins began using Michael Mendenhall as a sales agent for Chadbourn in Colorado. Mendenhall began contacting clients of his former employer, Bankers' Life and Casualty, and soliciting them to invest in Chadbourn. Mendenhall falsely told these largely unsophisticated and often elderly investors that Chadbourn's debentures were safe and would generate far higher returns than they were receiving on their annuities or current investments. Mendenhall also pushed investors to liquidate their annuities or other safe investments to generate the funds to invest in Chadbourn. Once that was done, Mendenhall sent the investors' money and signed debenture agreements to Murphy and Wiggins. Murphy, Wiggins, and Mendenhall never told Colorado investors critical information about the debentures they purchased. Prior to taking their money, they did not tell investors such basic information as Chadbourn's business model, the risk involved in the investment, or that Chadbourn would spend a third of its money on the personal expenses and salaries of its officers and employees, or that the debentures had not been registered as required by law.

4. While soliciting investors for Chadbourn, Mendenhall was arrested for securities fraud and theft from at risk victims stemming from a fraudulent real estate scheme he ran. Rather than severing all ties with Mendenhall, Murphy and Wiggins continued to accept investor funds he solicited on behalf of Chadbourn. Chadbourn also paid substantial amounts of Mendenhall's legal fees and bail costs. But Mendenhall, Murphy, and Wiggins did not bother to tell investors any of this information. Mendenhall continued to solicit investors for Chadbourn even after he had been indicted for securities fraud, including soliciting one elderly investor who provided Mendenhall with a \$100,000 personal check which Mendenhall sent to Murphy and Wiggins. These actions violate the registration and anti-fraud provisions of the Colorado Securities Act, and Chadbourn, Murphy, and Wiggins must be permanently enjoined from future violations.

DEFENDANTS

5. Chadbourn Partners, LLC (“Chadbourn”) is a limited liability company that was originally incorporated under the laws of Florida as Chadbourn Partners, Inc. on July 22, 2009. Chadbourn subsequently converted to a limited liability company in or about April 2010. On or about March 6, 2012, Chadbourn converted to a for-profit corporation and again became Chadbourn Partners, Inc. Chadbourn’s principle place of business is 9191 R.G. Skinner Parkway, Suite 502, in the city of Jacksonville, Florida.

6. Daniel R. Murphy is an adult male individual whose last known residential address is 4426 Palmetto Inlet West in Jacksonville, Florida. Murphy was the managing director of Chadbourn and Chairman of Chadbourn Partners, Inc.

7. Henry Dyer Wiggins, Jr. is an adult male individual whose last known residential address is 2315 Wallaby Avenue in Middleburg, Florida. Wiggins is the registered agent and president of Chadbourn.

RELATED INDIVIDUALS

8. Michael Mendenhall is an adult male individual who is currently incarcerated at the Kit Carson Correctional Facility located at 49777 County Road V, Burlington, CO 80807. Mendenhall was a licensed broker-dealer who solicited Colorado residents to invest in Chadbourn’s debentures. Mendenhall was arrested on or about November 12, 2010 on charges related to a real estate investment scheme he ran. Mendenhall was indicted on April 13, 2011 for theft and securities fraud and was convicted on March 2, 2012. Mendenhall was also arrested on or about May 19, 2011 for securities fraud in connection with the solicitation of an elderly Colorado resident for investment in Chadbourn debentures.

GENERAL ALLEGATIONS

9. Chadbourn was formed by Wiggins and Murphy with the stated intent that it would become a holding company to acquire broker-dealer entities. Chadbourn intended to become a full service firm, handling retail and institutional clients and engaging in market making and trading. Its plan included becoming an introducing broker and offering its customers investment opportunities in debt and equity securities, private placements, mutual funds, options, and other financial products.

10. Chadbourn sought to achieve this expansion, in part, by hiring additional securities representatives to work for it across the country. Chadbourn characterized these employees as “independent contractors” who would operate out

of Chadbourn offices it described as “Offices of Supervisory Jurisdiction.”¹ This included opening a Chadbourn office in Denver, Colorado. Chadbourn raised money to finance this expansion through the offer and sale of debentures.

The Chadbourn Debentures

11. From September 2010 through February 2012, Chadbourn, through Murphy and Wiggins, offered investments in its debentures to Colorado residents, raising approximately \$879,000 through at least 13 Colorado investors.

12. The Chadbourn debentures bore an 8¼% interest rate, which was to be paid twice per year. Principal was to be returned on or around October 2015. Chadbourn’s debenture agreement provided for early redemption after three years from issuance if Chadbourn paid investors 110% of principal plus accrued interest.

13. Chadbourn found Colorado investors through Mendenhall, who solicited potential investors to invest in Chadbourn debentures. Most of the potential investors Mendenhall solicited to invest in Chadbourn were clients of Bankers Life, Mendenhall’s former employer. Mendenhall approached these potential investors and offered to help them cash out annuities they had with Bankers Life so that they could ostensibly receive a higher return by investing in Chadbourn debentures.

14. If a solicitation was successful, Mendenhall submitted completed debenture agreements and investors’ checks to Murphy and Wiggins at Chadbourn’s Jacksonville, Florida office.

15. Once Chadbourn received the agreements and money, Murphy and Wiggins signed the Chadbourn debentures and returned them to the respective Colorado investors, either directly or through Mendenhall.

16. Following an introduction by Mendenhall, Murphy also directly solicited at least one Colorado resident, L.N., for investment in Chadbourn’s debentures. Murphy negotiated the terms of the debenture offered to L.N. via e-mail. L.N. eventually invested \$300,000 in Chadbourn debentures.

17. Mendenhall provided the Colorado investors he solicited with little to no information on Chadbourn, its business, how the proceeds of their investments would be used, or the risk involved in Chadbourn’s debentures. Instead,

¹ An Office of Supervisory Jurisdiction is defined by FINRA as an office of a FINRA member where any one of the following activities is conducted: order execution, structuring of private placements or public offerings, maintaining custody of customer funds or securities, approval of new accounts, review of customer orders, approval of retail communications, or supervising persons associated with the FINRA member at its branch offices.

Mendenhall simply told potential investors that the Chadbourn debentures were “safe” and that they would generate a higher return than the investors’ current holdings.

18. Likewise, neither Murphy nor Wiggins provided Chadbourn’s Colorado investors with information on the company prior to accepting investor funds and issuing a signed Chadbourn debenture. Murphy and Wiggins did not send Chadbourn’s Colorado investors private placement memoranda or any other disclosure documents prior to their investment.

19. The Colorado residents who invested in Chadbourn’s debentures were, with few exceptions, unsophisticated. Almost none had sufficient assets to be considered accredited investors, and most had to liquidate other investments, including annuities and 401(k) accounts, to fund their investment in Chadbourn’s debentures.

20. Chadbourn, Murphy, and Wiggins made no apparent effort to determine if the Colorado investors Mendenhall solicited were suitable to invest in Chadbourn’s debentures.

21. Chadbourn did not register its debentures or file a notice of exemption with the Colorado Division of Securities.

22. On November 12, 2010, Mendenhall was arrested for theft in connection with real estate interests he sold in Colorado. Even after his arrest, Chadbourn continued its relationship with Mendenhall, making several payments totaling over \$28,000 to Mendenhall’s attorneys. On November 24, 2010, Wiggins loaned Mendenhall over \$42,000 of investor money, \$25,000 of which was used to bail Mendenhall out of jail.

23. Chadbourn also continued to allow Mendenhall to solicit investors for its debentures after he had been arrested. For example, five months after Mendenhall’s arrest, Colorado resident L.N. invested \$100,000 in Chadbourn’s debentures on March 3, 2011, and Colorado resident L.P. invested \$68,000 on March 10, 2011.

24. Chadbourn likewise continued to allow Mendenhall to solicit investors for its debentures after he had been indicted for securities fraud and theft. For example, on April 22, 2011, a week after his indictment, Mendenhall contacted L.G., an elderly Colorado investor, and solicited her to invest \$100,000 in Chadbourn debentures. L.G. gave Mendenhall a personal check for \$100,000, which he then sent to Chadbourn.

Chadbourn's Operations

25. Concurrent with Chadbourn's issuance of its debentures, Chadbourn reached an agreement to purchase a broker-dealer entity named Seacoast Investor Services, Inc. ("Seacoast"). Despite spending significant amounts of money on the transaction and repeatedly reassuring investors that all was going well with the deal, the acquisition was later terminated due to issues involving Seacoast's former management.

26. The failed acquisition led to a mediated dispute between Seacoast, its principals, and Chadbourn. In the mediation, Murphy claimed to have made several loans to Seacoast's principal in an effort to close the deal. None of those loans were repaid. Murphy claimed that Chadbourn lost over \$500,000 in its failed acquisition of Seacoast.

27. Chadbourn also expended considerable resources on the personal expenses of its members and employees. Murphy's employment contract with Chadbourn, for example, provided that he was to be reimbursed for "comprehensive automobile expenses" as well as his personal expenses, including his mortgage and utilities such as electric and phone service.

28. From January 2010 to December 2012, Chadbourn's payments to Wiggins, Murphy, Mendenhall, and other sales representatives of Chadbourn were in excess of \$500,000, over 33% of all Chadbourn expenditures during the period.

29. Chadbourn is no longer operating and since April 2012 has made no interest payments on the debentures it sold to Colorado residents. Chadbourn has not redeemed the debentures.

MISREPRESENTATIONS OR OMISSIONS OF MATERIAL FACT

30. While soliciting Colorado residents to invest in Chadbourn LLC's debentures, Mendenhall told prospective investors that the debentures were "safe." He did not disclose the risk involved with the debentures or tell potential investors that they could lose the entire amount invested.

31. Neither the Defendants nor Mendenhall told investors that the proceeds from their investment would be used to pay Murphy's personal expenses, including his mortgage, car expenses, and utilities. Nor did they tell potential or current investors that Chadbourn would spend over 33% of its expenditures on its officers and sales staff.

32. The Defendants did not tell investors that Mendenhall had been arrested for theft in November 2010. Nor did they tell investors that Chadbourn

loaned Mendenhall over \$42,000 of investor funds to pay some of Mendenhall's expenses related to his arrest, including attorneys' fees and \$25,000 in bail.

33. Prior to their investment, neither the Defendants nor Mendenhall provided Colorado investors with private placement memoranda or any disclosure documents regarding Chadbourn, its business model, or the intended use of the proceeds from its debentures.

34. The Defendants and Mendenhall likewise did not tell Chadbourn's Colorado investors that the debentures had not been registered with federal or Colorado regulators. Nor did they tell investors that the debentures were ineligible for exemptions from registration.

35. The Defendants did not disclose the fact that Murphy had previously filed for bankruptcy twice, once in 1977 and again in 1996.

36. The Defendants did not disclose to Colorado investors other material risks of the debentures, including economic risk, market risk, competition, regulatory requirements, and legal risks associated with the operations of a broker-dealer.

FIRST CLAIM FOR RELIEF

(Offer or Sale of Unregistered Securities)

§ 11-51-301, C.R.S.

37. Paragraphs 1 through 36 above are incorporated herein by reference.

38. The debentures offered by Chadbourn, Murphy, and Wiggins are securities as defined by § 11-51-201(17), C.R.S.

39. By engaging in the conduct described above, Defendants have made "offers to sell" or "sold" securities in or from the State of Colorado pursuant to § 11-51-201(13), C.R.S.

40. The securities that Defendants offered or sold were not registered or exempted from registration as required by § 11-51-301, C.R.S.

41. The Commissioner is entitled to an award of damages, interest, costs, attorneys' fees, restitution, disgorgement and other equitable relief on behalf of persons injured by the conduct of Defendants, jointly and severally, pursuant to §§ 11-51-602(2) and 604(1), C.R.S., based on violations of § 11-51-301, C.R.S. The Commissioner is also entitled to a temporary, preliminary and permanent injunction pursuant to §§ 11-51-602, C.R.S., based on violations of § 11-51-301, C.R.S., against Defendants, their agents, servants, employees, successors and attorneys-in-fact, as may be; any person who, directly or indirectly, through one or

more intermediaries, controls, or is controlled by or is under common control with Defendants; and all those in active concert or participation with Defendants, enjoining violations of § 11-51-301, C.R.S., by virtue of § 11-51-602, C.R.S.

SECOND CLAIM FOR RELIEF

(Securities Fraud)

§ 11-51-501, C.R.S.

42. Paragraphs 1 through 41 above are incorporated herein by reference.

43. The conduct described above in this Complaint constitutes violations of the Act in that, in connection with the offer, sale, or purchase of securities in Colorado, Defendants, directly or indirectly:

- a. employed a device, scheme, or artifice to defraud;
- b. made written and oral untrue statements of material fact or omitted to state material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading; or
- c. engaged in acts, practices or courses of business which operated and would operate as a fraud and deceit on investors,

all in violation of § 11-51-501(1), C.R.S.

44. Accordingly, Defendants are liable to the Commissioner for damages under § 11-51-604(4), C.R.S., by operation of § 11-51-602(2), C.R.S., based upon violations of § 11-51-501(1)(a), (b), and (c), C.R.S.

45. The Commissioner is entitled to an award of damages, interest, costs, attorneys' fees, restitution, disgorgement and other equitable relief on behalf of persons injured by the conduct of Defendants pursuant to §§ 11-51-602(2) and 604(4), C.R.S., based upon violations of § 11-51-501, C.R.S. The Commissioner is also entitled to a temporary, preliminary and permanent injunction pursuant to § 11-51-602, C.R.S., based upon violations of § 11-51-501, C.R.S., against Defendants, their agents, servants, employees, successors and attorneys-in-fact, as may be; any person who, directly or indirectly, through one or more intermediaries, controls, or is controlled by or is under common control with Defendants; and all those in active concert or participation with Defendants.

WHEREFORE, Plaintiff prays for relief as follows:

1. For preliminary and permanent injunctive relief against Defendants, and each of their officers, directors, agents, servants, employees, and successors;

any person who directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with the Defendants, and all those in active concert of participation of Defendants, enjoining the Defendants' violations of the Act, or successor statute.

2. For a judgment in an amount to be determined at trial against the Defendants for restitution, disgorgement, and other equitable relief pursuant to § 11-51-602(2), C.R.S., and for damages, rescission, interest, costs, reasonable attorneys' fees, and such other legal and equitable relief as the Court deems appropriate, pursuant to §§ 11-51-602(2) and 604, C.R.S., all on behalf of persons injured by the acts and practices of the Defendants constituting violations of the Act.

3. For such other and further relief as the Court deems proper.

Dated this 27th day of January, 2014.

JOHN W. SUTHERS
Attorney General

*Under C.R.C.P. 121, § 1-26(7), a printable copy is
maintained in the Office of the Attorney General*

/s/ Charles J. Kooyman

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